

Discussion points for Senate Ag Hearing 8/16/06:

The growth of the ethanol industry in the U.S. continues to generate a variety of economic impacts that are critical to farmers and others. As a corn producer and cattle feeder, I recognize the importance of ethanol plants which offer a nearby market for my corn. This is a reliable, domestic marketing outlet and farmers who sell corn and other grain to ethanol plants quickly realize that the plants are often the "market maker" in an area. This new demand for our crop tends to stimulate price and income for those of us who produce corn and other grains.

The use of corn and other grains in ethanol production clearly illustrates the concept of "value-added". We are able to convert a raw material into a variety of food, feed and fuel products that have a significantly higher value than the bushel of corn from which they are produced. When farmers and others who live in areas near ethanol plants have the option to take an ownership position in the plants, we in effect hedge our marketing position. We are then positioned to make a profit from the marketplace, whether from the sale of corn or from the profits generated by the plant that processes the corn. I applaud the committee for supporting tax legislation initiatives in the recent past that helped to support ownership structures involving farmers and cooperatives and for modifying the definition of a "small" ethanol plant. Local ownership often involves plants that meet the "small producer" definition. The tax distinction has been important in the past and the recent change allows many of the smaller plants to expand without being penalized by the tax code.

In addition to farming and feeding cattle, I've spent over 20 years employed within the ethanol industry. In my capacity as general manager of Chief Ethanol Fuels, an ethanol plant located in Hastings, I see first hand the impact of ethanol production on the Ag sector. Our plant, like many others, is an aggressive buyer of local corn and a producer of distillers' feeds, the high protein co-product left when starch is removed from grain to make ethanol. Distillers feeds are an excellent livestock feed and many cattle producers have discovered the value of feeding this product as part of the ration. A report by University of Nebraska researchers noted that the practice of feeding wet distillers feed from NE (Nebraska) ethanol plants to cattle produced in the state will generate more than \$55 million in economic activity annually. That impact is increasing each year and the majority of that specific economic benefit accrues to the cattle feeder.

Chief Ethanol Fuels was initially constructed and put into service in 1985. We are a reliable supplier of ethanol fuel to markets in many areas of the country. We add value to the corn we process and market feed and fuel from NE to California. Our plant and others are important to the Ag sector but we also serve an important role as strategic, decentralized providers of liquid transportation fuels. In addition, the initial capital commitment for our plant was followed by additional capital commitments that have allowed the plant to expand from an initial size of 10 MGY to more than 62 MGY. Like our facility, many other plants continue to expand. The expansions as well as the construction of new plants represent an important flow of capital to NE. Like many other states with an Ag based economy, capital is often difficult to attract. The expansion of

the ethanol industry in NE and other states with an Ag based economy has been an important means of attracting new capital to the state. That capital infusion remains an important means of stimulating economic activity in the Ag sector of NE and many other states.

And finally, it is important to note the economic impact of ethanol plants on communities. Many of the communities in NE and other states that host ethanol plants are communities with small populations. Ethanol plants serve to generate a host of economic impacts and quality jobs that are essential to the economic vitality of rural communities. This activity stimulates local demand for goods and services and allows us to expand the diversity of the local tax base. For example, recent studies by the Nebraska Public Power District indicates that in the first full year of operation a 40 MGY ethanol plant will generate more than \$82 million in total economic activity. That is a huge impact on communities and it often serves as the impetus for other economic activity.

In conclusion, I want to suggest that the expansion of the ethanol industry is perhaps the most important economic engine we've seen in states with Ag based economies. We've seen the importance of these plants to local economies, especially in rural areas. We've seen the importance of expanding our supply of renewable transportation fuels. The Ag sector can continue to play an important role in this strategic area.

As you consider policies that address economic and rural development, fuel security and supply and the stability of the Ag sector, please note that certainty and stability is essential to many of us involved in grain production and ethanol production. The recently enacted Renewable Fuel Standard has been an important catalyst for growth in ethanol production. However, the ethanol incentives designed to stimulate use of the product by the petroleum industry has also been an important factor for two decades. As you consider policies to encourage the expanded production and use of energy produced by the Ag sector, please take the time to solicit our input. I appreciate the opportunity to share my thoughts with you today and I invite you to tour our facility at any time in the future.

Thank you.

A handwritten signature in dark ink, reading "Duane Kristensen". The signature is written in a cursive, flowing style. The first name "Duane" is written with a large, prominent 'D'. The last name "Kristensen" follows, with the 'K' being particularly large and stylized. The signature is positioned below the "Thank you." text.